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Weekly Intelligence Summary No. 22

27 July 1948

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The possibility of Danish-Polish and Italo-Yugoslav air agreements may threaten the success of a joint US-UK policy against penetration of Western Europe by Soviet-dominated Satellite airlines.

The acquisition of Canadian-manufactured DC-4/M transport aircraft will improve the UK competitive position in international air transport, but will not provide competitive parity with air carriers operating superior aircraft on the world's trunk air routes.

There is some possibility that the Dhahran air base in Saudi Arabia, which is of major strategic importance to the US, will be closed when the US-Saudi Arabian air base agreement expires on 15 March 1949.

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SECTION II. CURRENT DEVELOPMENTS

The US is applying pressure discreetly on Denmark and Italy in order to forestall any air agreements these countries may make with Poland and Yugoslavia respectively prior to the completion of US-UK discussions regarding the implementation of a new joint aviation policy vis-a-vis the USSR and the Satellite States (See TG Weekly Summary No. 20, 13 July 1948). Denmark's contemplated exchange of transit and landing rights with Poland and the completion of an Italo-Yugoslav air agreement at this time would prejudice the success of any joint US-UK policy which would have as its purpose the erection of a counter-curtain to block further air penetration of Western Europe by the Soviet-dominated Satellite airlines.

Failure of the British aircraft industry to produce a modern and efficient long-range commercial transport has induced the UK to broaden its "fly British" policy to include Canada as a source of procurement. Although recognizing the competitive superiority of the US-built Lockheed Constellations, the British feel unable to expend the dollar exchange required to acquire these American transports, and have decided to purchase twenty-two Canadian-manufactured DC-4-M's powered by British engines. British Overseas Airways will use fifteen of the new DC-4-M's on its route from the UK to India, while the remaining seven will be used on the North Atlantic route from the UK to Canada. Although the DC-4-M is superior to any transport type presently produced in the UK, it is not equal in performance to aircraft already operated by other international carriers. British airlines will, therefore, not acquire full competitive parity with foreign air carriers operating on the world's trunk air routes.

The continued operation of the Dhahran air base after the US-Saudi Arabian air base agreement expires on 15 March 1949 is of major strategic importance to the US. There is considerable doubt, however, that the base will remain open.

The terms of the base agreement oblige the Saudi Arabian Government to continue operation of the Dhahran airport for a ten-year period following departure of the US military group, but is not obligated to do so if financial deficits incurred become an undue burden upon the Saudi Arabian treasury. While the Saudi Arabian Government now derives large revenues from landing fees, gasoline taxes, and from other sources connected with the use of the base as a civil airport, cost of maintenance and equipment are borne by the US Government. It has been estimated that the net cost

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to the Saudi Arabian Government of operating this base for its own account in the first year after the US relinquishes control, will amount to at least \$23,500,000, including the initial capital investment of \$10,000,000 for the purchase of necessary equipment. Faced with a sizeable deficit from operations at Dhahran instead of the revenue to which it has become accustomed, the Saudi Arabian Government can probably keep the base open only by one of the following courses of action: (1) extension of US jurisdiction through renewal of the air base agreement; (2) an attempt to persuade the Arabian-American Oil Company to operate the base and to absorb the annual deficit; or (3) operation of the base on a reduced scale by contract with some foreign aviation interest.

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